C) Indicators of Market Power

Several possible indicators have been suggested by various parties as measures of LEC market power for access services. Some are indicators which the Commission has considered in its evaluation of AT&T's market power for interexchange services.

1) Market Share

Some parties have proposed that the Commission delay streamlining regulation until competitors have attained some threshold level of market share.[12] It is claimed that only in this way can the Commission ensure that "effective competition" has arrived before it loosens the constraints on the incumbent. There are several problems with this approach:

- Market share does not measure market power directly. Clearly, if the incumbent has a reduced market share, customers must have other choices available. However, the existence of these choices, which is what we are trying to measure, need not result in any particular level of market share. A low market share is the result of customers exercising their choices in a particular way. A firm with a relatively high share may have little market power if customers are able to shift to other suppliers. Conversely, a firm with a relatively low share may have considerable market power if its services are highly differentiated or it has some unique resource.

- Market share is a backward-looking indicator. It measures decisions which have been made in the past. If the trigger mechanism is based on market share, then these decisions -- by new firms to invest in market entry, and by customers to commit to purchase decisions -- will have been made inefficiently, in response to distorted prices. A new regulatory framework cannot replicate a market result if it waits until these decisions have been made before it allows participants to respond to competitive pressures.

- The use of market share as a trigger presumes a certain outcome to the market experiment -- and, by preventing the LEC from responding, it ensures that outcome by distorting prices and limiting the LEC's ability to meet customers' needs. Rather than

---

12 See, for example, The Unlevel Playing Field: Asymmetric Market Power Demands Asymmetric Regulation, Teleport Communication Group, Page 12, March 1994.

promoting effective competition, this approach may prevent effective competition from developing.

AT&T has recently stated that LECs currently have more than 99% of the nationwide market for access. This claim is factually incorrect.[13] Perhaps more importantly, it is irrelevant to an evaluation of market power in any particular access market. Finally, AT&T's focus on market share is inconsistent with its own position with respect to the analysis of competition in interexchange markets.

First, AT&T's measure of LEC market share is based on its own purchases of access. It therefore does not count access supplied by the end user or another party, or self-supply by AT&T. A large percentage (30-40% for some companies) of LEC special access is purchased directly by end users today. A significant shift in demand from the LECs to alternative providers can therefore occur without affecting AT&T's measure of "market share." In effect, AT&T's statement is tautological: it says that all the LEC access AT&T buys is purchased from the LECs. Even as a measure of national market share, then, AT&T's figure is not correct. A comparison of revenue reported by IXCs for their switched interexchange services with the reported volume of LEC access minutes indicates that the proportion of the total access demand that is carried on the LEC's networks has been declining steadily over the last few years.

Second, no measure of nationwide market share can give an accurate picture of whether a LEC has market power in a particular geographic market. The entire United States is not the relevant market for access services; it includes many small geographic markets, some of which are more competitive than others. For this reason, such nationwide numbers, even if accurate, would be irrelevant to the question of whether LEC access regulation should be streamlined in a particular geographic market. Regardless of what the true market share is nationwide, it is clear that LECs have lost significant portions of certain markets. Bell Atlantic, for example, has documented a loss of 50% of the DS-3 market in the Washington metro area. NYNEX has estimated its market share for all access services in New York at 83%. Therefore, even if market share were the appropriate indicator of market power -- which it is not -- a nationwide view which aggregates many local access markets would not be useful.

---

13 See, The Enduring Myth of the Local Bottleneck, March 14, 1994.

Finally, AT&T itself has consistently argued that market share should not be used to gauge market power, calling it "a wholly unreliable index of its market power..."[14], and stating that "AT&T does not agree that market share analysis is relevant to the issue of market power in the telecommunications industry."[15] Further, AT&T declared itself fully competitive in 1984, when its market share, as measured by the Commission, was 84% of all interstate switched minutes. This is slightly higher than NYNEX's estimate of its current share of the access market in New York state.

2) *Capacity*

In its evaluation of AT&T's market power, the Commission relied heavily on measures of the capacity of AT&T's interexchange competitors. For customers to be able to exercise their competitive choices, alternative providers must have sufficient capacity to satisfy their demand. AT&T has strongly supported the use of capacity as an indicator of market power: "The most revealing measure of competition in the interexchange market is the substantial excess capacity now possessed by AT&T's competitors."[16]

The ability of competitors to supply is also emphasized in the Justice Department/Federal Trade Commission's merger and antitrust guidelines. For markets where relatively undifferentiated, homogeneous products are involved, such as access, the guidelines call for "physical capacity or reserves" to be used.[17]

To evaluate competitor's ability to supply demand they might win from AT&T, the Commission examined data on fiber route miles in the competitors' network. In access markets, competitors are installing fiber facilities which have very large capacities. Further, once the fiber itself is in place, its capacity can be increased at relatively low cost by upgrading the associated electronics. A recent study by Pacific Bell has demonstrated that CAPs already have sufficient capacity in San Francisco and Los Angeles to carry all of Pacific's transport demand in those cities.

---

14 AT&T Comments, CC Docket 83-1147.

15 AT&T comments, CC Docket 85-107, February 24, 1986, page 4, footnote.

16 AT&T Comments, CC Docket 90-132, July 13, 1990, page 12.

17 U.S. Department of Justice, Merger Guidelines, April 1992.

It appears, therefore, that while capacity is an important indicator of market power, it may not be useful for the Commission to examine alternative providers' capacity on a case-by-case basis as part of a trigger mechanism. For example, even if a carrier's fiber has a large cross-section of capacity, it may not be able to serve a customer's demand if it is not located near the customer's location. The geographic reach of competitors' networks is, therefore, an indicator of competitors' ability to supply. It may be useful to incorporate this indicator within a trigger mechanism.

3) Contestability

If there are no significant barriers to entry, the expectation of market entry will affect the behavior of the incumbent. When considering a price increase, the incumbent will consider the possibility that the increase will stimulate entry, and that the presence of the entrants will then make the increase unsustainable.[18] Given these conditions, market discipline will be exerted on the incumbent, even if competitors have not yet constructed facilities. Such a market is said to be contestable.

A criterion based on satisfying the conditions for contestability may be appropriate in some circumstances. However, it may be difficult to develop a measure of the extent of contestability in a particular local market.

4) Addressability

The trigger mechanism proposed by USTA depends upon the proportion of access demand that is addressable by alternative providers. For a customer's demand to be addressable, an alternative provider must already have facilities near enough to the customers' location so that the provider can readily extend service to that customer upon request. In effect, this indicator asks directly the most basic question: does the customer have alternatives available?

Unlike market share, addressability is a forward-looking indicator. It asks whether customers have choices, rather than recording choices customers have made in the past. As part of a trigger mechanism, it therefore allows the Commission to adjust its regulation after the LEC has lost market power, but before entrants have made all of their investment decisions, and before customers have made their purchase decisions. Such a framework is more likely to promote effective competition, and less likely to predetermine the

---

18 See, William J. Baumol, John C. Panzar, and Robert D. Willig, Contestable Markets and the Theory of Industry Structure, pgs. 349-350 (1982).

outcome, than a reliance on market share.

Unlike contestability, addressability is based on the physical presence of alternative providers with the capacity and geographic coverage to serve a substantial portion of the market. It therefore allows the Commission to base its decisions on observed fact, rather than prediction. At the same time, addressability is a very conservative indicator of market power, since it essentially ignores part of the elasticity of supply. It does not rely on the expectation of future entry, or the geographic extension of existing networks, even though both events are likely, and the anticipation of these events would affect the behavior of the incumbent LEC.

Addressability incorporates traditional indicators of capacity, but adds a measure of the alternative providers' ability to deliver services to the locations where customers want them. This feature makes addressability particularly suitable as an indicator of market power in access markets, where demand, and the facilities needed to serve it, is more specific to particular locations than is the case in interexchange markets.

V) OVERVIEW OF THE USTA ACCESS REFORM PROPOSAL FOR COMPETITIVE MARKET AREAS

In its Access Reform Petition, USTA has set forth a carefully designed proposal for comprehensive reform of the Commission's access charge rules. One component of the USTA proposal is a framework which allows the Commission's pricing rules to be adjusted to match the degree of competition in each access market. This framework has three main elements:

1. The establishment of market areas which correspond to relevant access markets.

2. A trigger mechanism which classifies each market area as an Initial Market Area (IMA), Transitional Market Area (TMA), or Competitive Market Area (CMA), depending on the degree of available alternative supply found in each area. The proposal includes the criteria on which these triggers would be based.

3. The pricing rules which would apply in IMAs, TMAs, and CMAs. The more competitive the market area, the greater the flexibility under the rules.

A) Market Areas

The USTA proposal uses the existing zone pricing plan as the basis for its market area classification. At the outset of the plan, each zone would become an Initial Market Area, or IMA.

When an appropriate trigger point, determined in advance, is reached within a given wire center in an IMA, that wire center would be incorporated into a Transitional Market Area, or TMA. When a wire center can be shown to satisfy a more stringent set of criteria, a second trigger point is reached, and the wire center is classified as a Competitive Market Area, or CMA. Thus, once the starting point of the plan has been established, the relevant market to which the trigger mechanism would apply is the area served by a LEC wire center.[19]

In principle, the size of each market area will vary, depending on the economics of demand and supply in a given region. However, in order to make a plan simple, predictable, and practical to administer, USTA believes that the units of observation should be determined in advance, and that they should correspond to an area which is already used in tariffs, operating systems, and ordering and billing systems. The wire center is the existing unit which most closely approximates the scope of an economic market for access.

B) Trigger Mechanism

In order to trigger the creation of a CMA, a wire center must satisfy both of the following criterion:

1. Customers within the serving area of the wire center representing at least 25% of the demand for the local exchange carrier's interstate access services, or 20% of the total market demand for interstate access services within that area, have an alternative source of supply available; and

2. That customers in the serving area of the wire center whose demand represents at least 25% of the total demand within that area for the exchange carrier's interstate access services, or a single customer whose demand represents at least 15% of that total, actively seek to reduce the cost of their access services through the solicitation of bids, use of private networks, or construction of

---

19 As noted earlier, the LEC may demonstrate the trigger point has been achieved for a reasonable grouping of wire centers to form a larger market area. In this instance, each wire center in the grouping may be classified as a CMA.

their own facilities.

The first criterion is based on an indicator of the proportion of the market that is addressable by competitors. The second criterion measures the ability and willingness of customers to take advantage of the choices available to them.

C) Pricing Rules

Under the USTA proposal, the rules which would govern the pricing of LEC access services would vary, depending on the market area in which the service was provided.

New baskets would be established for Switching, Transport, Public Policy, and other rate elements.[20] Within the Switching and Transport baskets, subindices would be established; these would be called Market Area Band Indices, or MABIs. Services in an IMA would be subject to price caps similar to those in place today. IMA subindices would be allowed to increase by 5% or decrease by 10% in a given year. New services offered in an IMA would be subject to a 45 day notice period, with a showing that the proposed rates exceed the service's incremental cost.[21]

Services in a TMA would be subject to similar price cap rules, except that the lower banding constraint would be 15%. LECs would also be able to respond to a request for proposal (RFP) from a customer in a TMA with a contract tailored to the customer's needs. These contracts would be offered under tariff, as AT&T's contracts are today. New services would be justified under a net revenue test. Tariff notice periods would be shorter than those for services in an IMA.

Services in a CMA would be removed from price cap regulation. Any CMA service could be offered under a customer-specific tariff. However, all CMA services would continue to be regulated as tariffed, Title II services.

---

20 Corresponding pricing rules are proposed for non-price cap LECs. See USTA petition at 30-32.

21 However, in another section of its Petition, USTA has proposed the elimination of the current prescription of rate elements in Part 69. If this proposal is adopted, new services could be introduced more easily than they are today, even in an IMA.

D) Benefits of the USTA Proposal

The USTA plan allows the Commission to establish a framework which will accommodate the differences in the degree of competition which already exists among access markets today. It maintains regulatory protection for consumers where necessary. Where the development of competition allows market forces to replace regulatory safeguards, it provides an appropriate degree of flexibility to LECs. Further, as access markets become more competitive, this framework will allow regulation to adapt, as the trigger points are reached in each market, without the need for new proceedings. By setting forth these ground rules in advance, this framework would allow LECs, their competitors, and consumers to make their decisions based on reasonable expectations regarding future regulation and prices.

The criteria proposed for the trigger mechanism are reasonable. The CMA trigger, in particular, is based on addressability, which is the simplest and most direct indicator of market power. The criteria are sufficiently detailed to provide an accurate gauge of market power in each area, yet simple enough to permit the Commission to administer the plan efficiently. By establishing well-defined criteria in advance, the plan avoids the need for repeated investigations and economic studies to determine the appropriate policy for each market over time.

The CMA trigger is also designed to minimize the data that would be required to implement it. However, some new information will be needed to develop indicators of addressability to satisfy this criterion. Consistent reporting by all access market providers is the best way for the Commission to obtain this information.

VI) NEW SOURCES OF INFORMATION WILL BE NEEDED TO DEVELOP INDICATORS OF MARKET POWER

When the Commission first began to examine competition in the interexchange market, it had to develop sources of data which would allow it to construct indicators of interexchange market power. These included market share reports based on LEC data, and fiber deployment reports. While AT&T itself was unable to observe directly the portion of the market that it lost to competitors, the FCC was able to build a more complete picture based on the additional information it collected.

In access markets, the LECs will not be able to observe the portion of the market that they do not serve themselves -- just as AT&T was unable to do so in the interexchange market. It will again be necessary for the Commission to

develop sources of information to complete its ability to assess competition in access markets. In doing this, the Commission will face some additional challenges which were not present in the interexchange case.

First, in gathering data on the interexchange market, the Commission could rely on the LECs. The market share reports prepared by the Commission have been based, not on direct reporting by IXCs, but on reports of access purchases submitted by LECs. The Commission was thus able to assemble data without collecting it from the interexchange carriers themselves.

This approach will not be successful in access markets. There is no parallel segment of the industry on which the Commission can rely for a proxy measure of access markets, as it relied on the LECs for a proxy measurement of interexchange demand. Clearly the LECs alone will not be able to provide the Commission with all the information it needs. When LECs supplied virtually all of the access demand, their records could provide a complete picture of the market. Today, this is no longer the case. In many areas, major customers have already shifted a significant portion of their demand to a variety of alternative providers. LEC records cannot document the availability of these alternatives, nor does the Commission have any mechanism in place to observe them. As competition develops, the shortfall in the information available to the Commission will become more severe.

Exchange carriers have developed information on alternative providers as part of their market research. However, their ability to collect this information on a consistent basis is limited, and will decrease further as competition develops. For example, while some CAPs have filed information on their networks in applications for state certification, these carriers have generally not been required to update this information to reflect subsequent network additions. While some information has been available from applications for rights of way filed with local authorities, CAPs are increasingly able to obtain rights of way through arrangements which do not require such disclosure, such as joint ventures with cable providers, electric and water utilities, and subway systems.

In any event, it is unreasonable to expect one group of competitors -- the LECs -- to serve as the Commission's source of market data concerning another group of competing firms. To obtain consistent, reliable information about the state of competition in access markets, the Commission should require reporting from the market participants themselves. To establish parity of regulatory treatment, these reporting requirements should be equivalent for all participants. Finally, the information requested should be designed to provide input to the indicator(s) of market power that the Commission chooses as the drivers for its trigger mechanism.

Second, the information that the Commission collected for the interexchange market was aggregated at a high level. As explained above, the relevant market for access is a limited geographic area. Aggregate data at a national, state, or even a LATA level will not provide a useful means for assessing competition in a relevant access market. For example, the current fiber deployment reports provide only the total fiber miles deployed nationwide by each reporting entity. This does not allow the Commission to determine whether an entity could provide service in a particular market. To develop useful measures of access competition, the Commission will need information at a much finer level of detail -- in particular, a much more specific geographic focus.

In summary, the Commission should develop a new reporting mechanism to gather the information it needs to assess the competitiveness of access markets. The most reasonable indicator of market power for use in such a mechanism is addressability.

A) Objectives of Reporting Requirements

USTA proposes the following objectives be used to assess the effectiveness of a particular reporting requirement:

1) Provide an Effective Measure of Competitive Alternatives in LEC Wire Centers

USTA believes that a practical and workable indicator of market power -- for relevant access markets -- is addressability. The collection of information from local exchange carriers and their competitors to assess the level of competition in a particular market area -- including information related to addressability or any other factor -- should provide adequate information for the Commission to determine the extent to which customers in that market area have competitive alternatives for their exchange access services. Such information should also be sufficient to determine the appropriate classification of a particular market area as an Initial Market Area, a Transitional Market Area or a Competitive Market Area.

2) Ease of Administration

The collection of information from industry participants should not impose undue administrative burdens upon either the industry or regulators. This is particularly important for the local exchange market, where useful information on markets must be collected on a local basis. With over 10,000 local exchange carrier wire centers in the United States, any reporting requirement has the potential of presenting substantial burdens on all market participants. This stands in stark contrast to the interexchange market, where

nationally aggregated data provides regulators with reasonable measures of the effectiveness of competition in that market, and the data are available from a variety of sources.

3) Provide Parity Among Competitors

As discussed earlier in this paper, local exchange carriers do not have access to the demand and capacity provided by its competitors -- including CAPs, Interexchange Carriers, Cable TV Providers, or Private Networks. It is clear therefore, that the development of such information will require all industry members to participate. It is important that any such reporting requirement be competitively neutral -- local exchange carriers should not be required to provide information that is not required of its competitors, and competitors should not be required to provide information that local exchange carriers are unwilling or unable to provide.

4) Avoid the Disclosure of Competitively Sensitive Information

To the extent possible, the Commission should not require any interstate common carrier to disclose competitively sensitive information. Such disclosure could serve to thwart the effectiveness of competition.

5) Use Existing Mechanisms Whenever Possible

Whenever possible, the Commission should rely on existing mechanisms, or the expansion of existing mechanisms. This will help to minimize the administrative costs of the data collection process for the industry and for regulators.

B) THE COMMISSION SHOULD REQUIRE INTERSTATE COMMON CARRIERS TO PROVIDE SERVICE AREA DESCRIPTIONS

1) Service Area Descriptions

USTA believes that its proposed objectives for the collection of competitive information can be achieved by requiring interstate common carriers to provide in conjunction with their interstate tariffs a description of the service area in which they stand ready to make their services generally available to all customers. Such a requirement could be satisfied by a general description of the service area (e.g., a listing of zip codes, city or county boundaries, LEC wire centers, etc.), or through the filing of a service area map. These service area descriptions will provide the Commission with a very clear picture of the extent to which customers in a particular geographic area have access to alternative providers, and for which services. Such reporting should

not present an undue burden on competitors, as local exchange carriers routinely provide such information today.

Local exchange carriers currently provide service area information in two forms. First, the NECA 4 tariff lists, for each exchange area (wire center) the access services that are available to customers from that exchange area. Second, local exchange carriers provide detailed exchange area maps with state regulatory commissions. USTA proposes that the FCC require interstate common carriers to provide similar information in their interstate tariffs.

2) Facility Area Maps

To the extent that the Commission does not require interstate common carriers to file service area descriptions or maps with their tariffs, or does not require these carriers to make their services available to all customers within their service areas, USTA proposes that the Commission require such carriers to file facility maps with the Commission on an annual basis. Such facility maps would describe the route of the backbone network facility within each geographic area served by the common carrier -- on both a current basis, as well as a planned additions within the following annual period.

While such a requirement may appear to be onerous, it is important to recognize that local exchange carriers are currently subject to similar requirements when they propose to construct interstate facilities that will be used to provide a competitive alternative to an incumbent Cable TV Franchise (e.g., video dial tone trials). To receive permission to construct such facilities, the local exchange carrier is required to file a Section 214 Application with the Commission. The 214 Application must include: " A map or sketch showing:

(1) Route of proposed project;

(2) Type and ownership of structures (open wire, aerial cable, underground cable, carrier systems, etc.);

(3) Facilities, if any, to be removed;

(4) Cities, towns and villages along routes indicated on map or sketch, with approximate population of each, and route mileage between the principal points;

(5) Location of important operating centers, and repeater or relay points;

(6) Topographical features which may require special consideration

or entail added cost;"[22]

The availability of facility maps by interstate common carriers would be an essential source of information to the Commission in the event that interstate common carrier tariffs are permitted to be filed without clear descriptions of the services in each serving area that are available from each interstate common carrier. Local exchange carriers, in their applications to treat a wire center as a CMA could use such facility maps to determine the number of customers in the wire center that are addressable by the carrier, based on assumptions regarding how far the CAP could reach off its backbone network to serve a customer.

VII) USTA PROPOSAL FOR A LEC DEMONSTRATION IN SUPPORT OF A COMPETITIVE MARKET AREA CLASSIFICATION FOR A WIRE CENTER

The USTA Access Reform Proposal establishes the following standard for classification of a wire center as a Competitive Market Area (CMA):

> Customers, within the serving area of the wire center, representing at least 25% of the demand for the LEC's interstate access services, or 20% of the total market demand for interstate access services within that area have available to them an alternative source of supply.[23]

---

22 See 47 CFR 63.01(j).

23 A second standard must also be satisfied:

> Customers in the serving area of the wire center whose demand represents at least 25% of the total demand within that area for the LEC's interstate access services, or a single customer whose demand represents at least 15% of that total, actively seeks(s) to reduce the cost of their access service through the solicitation of bids, use of private networks, or construction of their own facilities.

A LEC may demonstrate that this standard has been met through the submission of Requests for Proposals, affidavits from customers, or similar evidence.

One approach for assessing whether the above threshold has been satisfied for a particular wire center would consist of the following five steps:

a) Identify the areas in the wire center that are served by competitive networks;

b) Identify the wire center demand;

c) Identify the portion of the wire center demand that is addressable by competitive networks;

d) Determine if the CMA threshold is satisfied;

e) Submit a CMA Classification Request to the Commission.

Each of these steps is reviewed in the following sections.

A) Identify the areas in the wire center that are served by competitive networks;

In this step, the local exchange carrier would determine the areas of the wire center that are served by competitive networks through two primary sources -- 1) Serving Area Descriptions provided by competitors with their interstate tariffs, and 2) Facility Area Maps provided by competitors.[24]

Serving Area Maps could be combined in a relatively straightforward manner, as illustrated in Attachment A.

The use of facility maps would be somewhat more complex, as the local exchange carrier would need to make certain assumptions about the distance a competitive network would be willing to extend its network from its fiber backbone to reach a new customer. Such assumptions would necessarily include such factors as the density of traffic at a particular customer location, the local geography, and the cost of network extensions. In the end, the local exchange carrier would make an assumption about the coverage area of a particular competitive network. This is illustrated in Attachment B. It should be noted that, to the extent that competitive networks include service area maps with their interstate tariffs which obligate the provider to serve all

---

24 It is important to note that these sources of information would overlook the presence of a private network or self-supply by interexchange carriers. For this reason, local exchange carriers should be free to supplement the service area descriptions and facility maps provided in the federal tariffs of interstate common carriers with market research that can quantify the presence of private networks within a wire center.

customers within the service area, there would be no need for a local exchange carrier to utilize such facility maps.[25]

Finally, the local exchange carrier would combine the serving area maps with its estimated serving areas from facility maps into a consolidated map illustrating the area of the wire center that is served by competitors. This is illustrated in Attachment C.

B) Identify the wire center demand;

In this step, the local exchange carrier will develop its estimate of the wire center demand. At least three different approaches may be used in this step, including:

1) Use of LEC Aggregate Wire Center Demand;

2) Use of Estimated Total Wire Center Demand

3) Use of Wire Center Land Area as a Surrogate for Demand

These three alternatives are discussed in the following sections.

1) Use of LEC Aggregate Wire Center Demand;

Local Exchange Carriers may elect to use LEC's current demand in its wire center as the basis of a CMA demonstration. In this case, the LEC would identify the current special access demand (expressed in DS1 or voice grade equivalents, or some similar measure) and the current switched access demand (expressed in MOU).[26] The special and switched access demand could

---

25 Of course, in the event the local exchange carrier has reason to believe a competitor has extended its facilities outside of its official serving area map, the local exchange carrier should be free to include in its CMA showing its best estimate of the competitor's network that extends beyond the serving area, and the demand that the competitor can readily address from this network extension.

26 It should be noted that the USTA Access Reform Proposal provides that LECs may, as an option, move only certain services in a wire center into a CMA category. If a LEC were to pursue such an option -- for example, by proposing to move only transport services to a CMA classification -- the LEC would not need to include switched access MOU in its base demand calculation.

be aggregated through the use of MOU equivalents, or DS1 equivalents.[27]

The advantage of this approach is that it does not require the LEC to determine the demand currently served by its competitors in the wire center. This is an important consideration, as LECs do not currently have access to their competitor's demand. Local exchange carriers can, at best, only *estimate* the demand provided by competitive carriers. Such estimates must rely on market research which makes use of the very limited data that is available through public sources.

2) *Use of Estimated Total Wire Center Demand*

LECs may, at their option, base their CMA demonstration using the total wire center demand -- the demand currently served by the LEC as well as demand served by all competitors. As mentioned in the previous section, the determination of the competitor's demand may be problematic.

3) *Use of Wire Center Land Area as a Surrogate for Demand*

In the future, the demonstration that a sufficient percentage of the customers in a wire center have access to alternative suppliers may require only that the LEC demonstrate the presence of competitive networks serving a substantial proportion of the wire center's land area.

For example, a cable TV franchise may be certified by the state to provide competitive local exchange and exchange access services in a substantial portion of a LEC's wire center area. In the case of a typical suburban wire center -- where Cable TV franchises are most likely to offer competitive local exchange services -- demand in the wire center is likely to be relatively evenly distributed. In the event the Cable TV franchise holds itself ready to offer local exchange service to all customers within its serving area, it should be sufficient for the LEC to demonstrate that a competitive alternative local exchange service is available in 25% of the land area encompassed in the wire center. Such an approach would simplify the CMA demonstration process, yet provide the FCC with sufficient evidence of a competitive market

---

27 LECs were required to establish their zone density plans by developing a measure of traffic density that included both switched and special access traffic (See, report and Order and Notice of Proposed Rulemaking, CC Docket 91-141, Footnote 415, Released October 19, 1994. Local exchange carrier zone density plans were generally established through an aggregation of their special access and switched access traffic in each wire center using DS1 equivalents or MOU equivalents.

for local exchange services exists in the wire center.[28]

C) Identify the portion of the wire center demand that is addressable by competitive networks

After the LEC has established the base of the CMA demonstration (i.e., LEC Demand, Total Demand, or Land Area), the LEC must next determine the portion of the demand in the wire center that is addressable by the competitive networks.

In the case of LEC Demand or Total Demand, the LEC must determine the amount of demand associated with customers who are located within the areas served by the competitive networks. This may be accomplished through a computer program similar to MapInfo or ArcInfo. Such a program will require a database containing the location of each customer in the wire center, and the demand for special and switched access services that each customer represents.[29]

The LEC can then make some assumptions about the kinds of customers that may be served by a competitive network. For example, it may be appropriate to exclude demand from customers who have fewer than 20 access lines per location -- if the competitive network's tariffs do not obligate them to serve such customers.

Once the customer database has been completed, and assumptions about the kinds of customers that will be served by competitive networks, the computer program can determine the portion of wire center demand that may be served by the competitive networks.

---

28 To the extent that demand is not evenly distributed in the wire center, the use of land area as a criterion is a conservative estimate of the extent to which customers have alternative sources of supply. In such a wire center, competitors will be incented to provide their services in the denser portion of the wire center to minimize their costs. Thus, if a competitive provider serves 25% of the land area in a wire center, and the demand in the wire center is not evenly distributed, it is likely that the competitor can address more than 25% of the wire center demand.

29 For example, the database would include the number of access lines, the number of special access circuits (voice grade, DS1 and DS3 channel terminations) and finally, the amount of switched access minutes of use generated by the customer.

D) Determine if the CMA threshold is satisfied;

Upon completion of the above steps, the LEC can determine if the appropriate CMA standard has been submitted:

> Customers, within the serving area of the wire center, representing at least 25% of the demand for the LEC's interstate access services, or 20% of the total market demand for interstate access services within that area have available to them an alternative source of supply, and,
>
> Customers in the serving area of the wire center whose demand represents at least 25% of the total demand within that area for the LEC's interstate access services, or a single customer whose demand represents at least 15% of that total, actively seeks(s) to reduce the cost of their access service through the solicitation of bids, use of private networks, or construction of their own facilities.[30]

E) Submit a CMA Classification Request to the Commission.

The final step in the process of CMA classification is the filing of a CMA Classification Request with the FCC. The request may include the following:

- Identification of the wire center;
- The CMA standard that the LEC believes is satisfied --
  - 20% of total demand in the wire center is addressable by competitive networks
  - 25% of the LEC's demand in the wire center is addressable by competitive networks; or
  - 25% of the land area of the wire center is addressable by competitive networks.
- Demonstration that customers in the wire center representing 25% of the demand in the wire center or a single customer representing 15% of the wire center demand, are seeking alternative serving arrangements.

---

30 Local exchange carriers may demonstrate that this second criteria is satisfied through a variety of evidence, including , for example, affidavits from customers, customer surveys, customer Requests for Proposals, etc.

VIII) CONCLUSION

As the market for telecommunications continues to evolve toward more and more customers having more and more alternative providers for their various telecommunications needs, it is essential that the Federal Communications Commission align its rules to provide local exchange carriers with the flexibility to respond to the needs of their customers through the deployment of new services and pricing options. USTA, in its September 17, 1993 Petition for Rulemaking, has set forth a proposal that will permit the Commission to establish a regulatory framework that will align the level of regulation in a market with the level of competitive alternatives in that market.

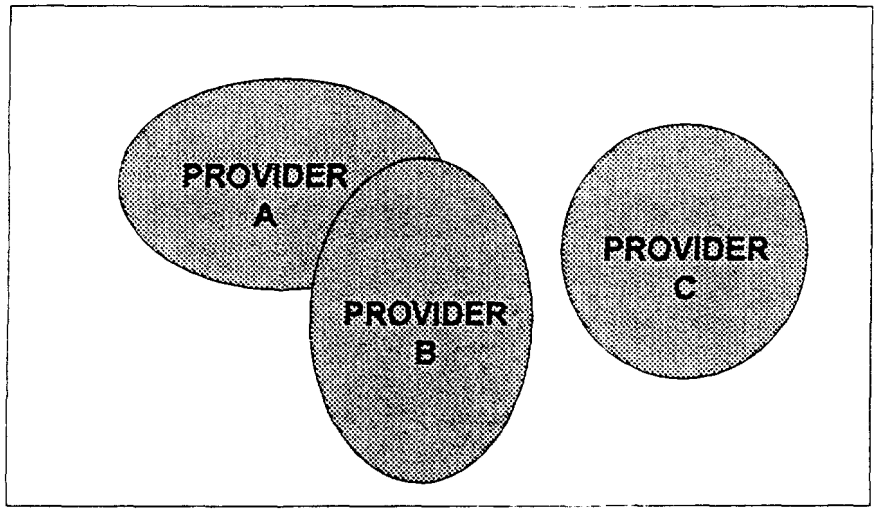
In this paper, USTA illustrates the methodology by which a local exchange carrier could use to demonstrate to the Commission that a particular wire center or grouping of wire centers has sufficient competitive alternatives to warrant treatment as a CMA pursuant to the USTA proposal. This mechanism is based on the notion that addressability is the best measure of a customer's ability to leave the local exchange carrier's network.

The FCC should require interstate common carriers to include in their interstate tariffs a description of the service area in which each of their services are generally available. The collection of such information from interstate common carriers is essential for the Commission to determine the extent to which customers in a local exchange carrier wire center have available to them an alternative provider of interstate services.

Attachment A
IDENTIFY LOCATION OF COMPETITIVE SERVICE AREAS

FROM SERVICE AREA MAPS PROVIDED WITH INTERSTATE COMMON CARRIER TARIFFS:

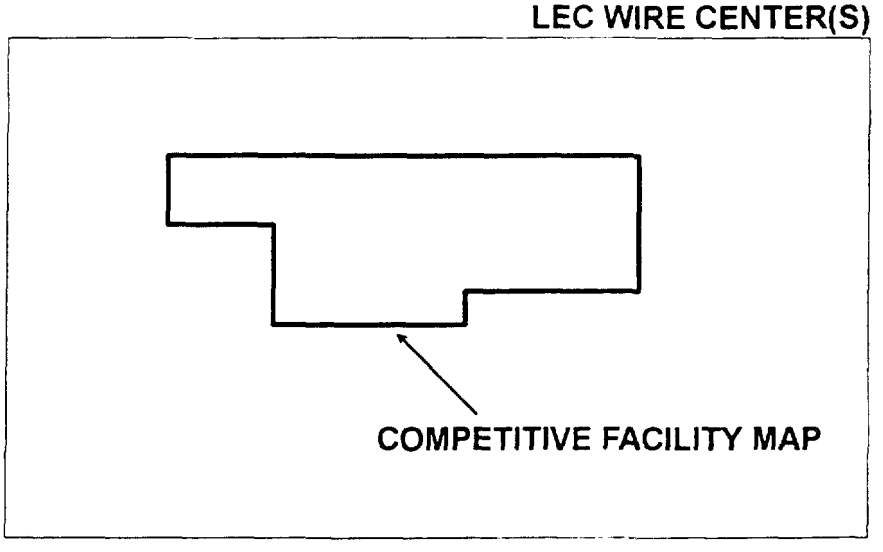
LEC WIRE CENTER(S)



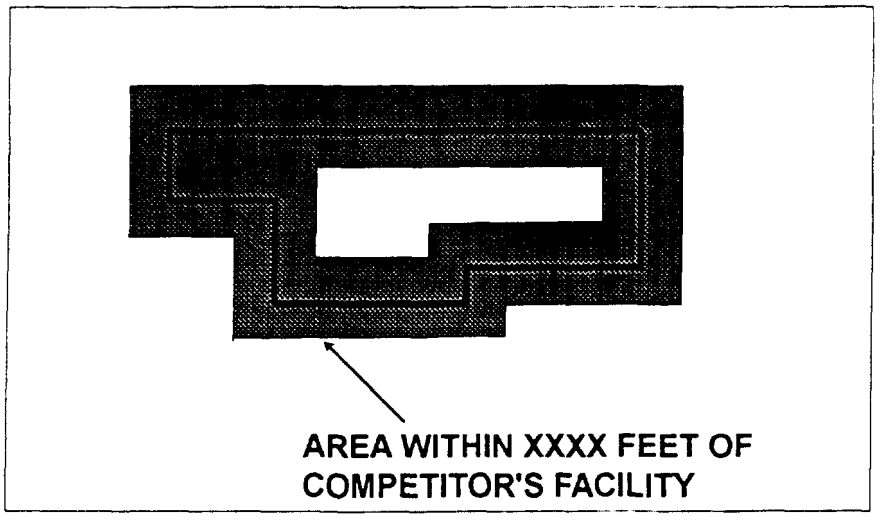
AREAS SERVED BY COMPETITORS

Attachment B
IDENTIFY LOCATION OF COMPETITIVE SERVICE AREAS

FROM FACILITY MAPS PROVIDED BY INTERSTATE COMMON CARRIERS



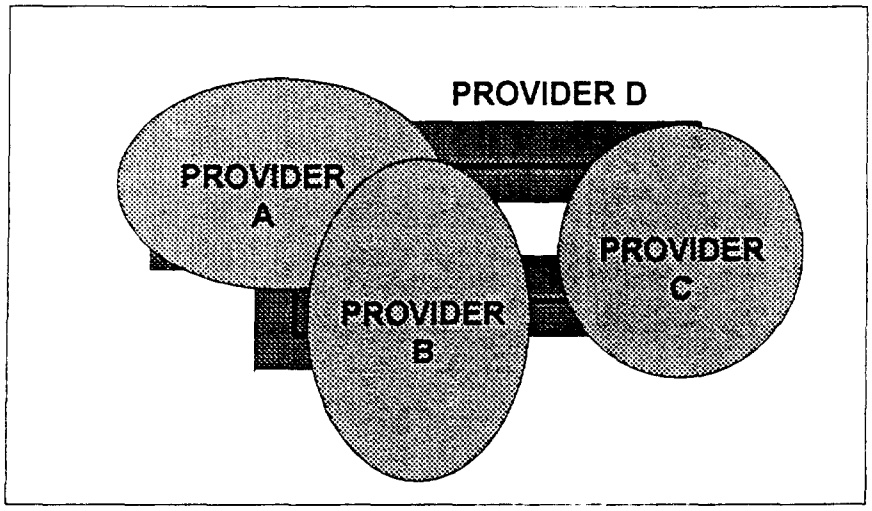
LEC ESTIMATES THE AREA ADDRESSIBLE BY THE COMPETITOR'S NETWORK



Attachment C
IDENTIFY LOCATION OF COMPETITIVE SERVICE AREAS

COMBINE SERVICE AREA MAPS PROVIDED WITH INTERSTATE COMMON CARRIER TARIFFS AND ESTIMATED SERVICE AREAS PER INTERSTATE COMMON CARRIER FACILITY MAPS:

LEC WIRE CENTER(S)



COMPETITIVE SERVING AREAS PER INTERSTATE TARIFFS

COMPETITIVE SERVING AREAS PER ESTIMATED FACILITY MAPS

ATTACHMENT 10

Net Effects of Exogenous Cost Adjustments for Price Cap LECs 1991-1993

NET EFFECTS OF EXOGENOUS COST ADJUSTMENTS FOR PRICE CAP LECS 1991-1993

Exogenous Cost Changes	Rule Section	Amount
Reserve Deficiency Amortization	61.45(d)(1)(i)	($455,000,000)
Changes in Accounting Rules	61.45(d)(1)(ii)	$199,000,000
Changes in Separations Rules	61.45(d)(1)(iii)	($651,000,000)
Changes in LTS and TRS	61.45(d)(1)(iv)	$106,000,000
Reallocation of Regulated Investment	61.45(d)(1)(v)	($100,000)
Tax Law Changes	61.45(d)(1)(vi)	$172,000,000
Other Extraordinary Cost Changes	61.45(d)(1)(vi)	$65,000,000
Inside Wire Amortization	61.45(d)(1)(viii)	($166,000,000)
TOTAL EFFECT		($730,100,000)

ATTACHMENT 11

GNP-PI Versus GDP-PI: 1982 to Present